



CITY OF FALLS CHURCH

March 14, 2016

Honorable Mayor and Members of the Falls Church City Council, and
Taxpayers and Citizens of the City of Falls Church:

The proposed FY2017 Budget and Five Year Capital Improvements Program (CIP) is a plan for City services and capital investment over the coming fiscal year. The annual budget development process allows the City to allocate limited resources to meet the priorities of the community, as expressed in the City Council Work Plan, adopted policies, and the Comprehensive Plan. The budget process is also one of our best opportunities for extensive public input on our City services and how they are delivered.

The following chart summarizes the changes to expenditures from FY2016 to FY2017:

	Adopted FY2016	Proposed FY2017	\$ Change	% Change
General Government	\$ 36,443,890	\$ 36,882,311	\$ 438,421	1.2%
Debt Service: Gen Gov't	1,684,271	2,171,900	487,629	29.0%
School Transfer	38,417,900	40,483,030	2,065,130	5.4%
Debt Service: School	4,146,459	4,298,646	152,187	3.7%
Public Transportation	152,370	779,482	627,112	411.6%
Transfers	2,182,260	2,630,051	447,791	20.5%
Total	\$ 83,027,150	\$ 87,245,420	\$ 4,218,270	5.1%
Note: Certain expenditures in FY2016 have been reclassified for comparability.				

The FY2017 General Government operating budget, not including debt service, transportation and "pay as you go" capital projects, provides for operating expenditures of \$36,882,311. This is a \$438,421 (1.2%) increase over FY2016.

The School Board transfer is \$40,483,030, which represents a \$2,065,130 (5.4%) increase over FY2016. The total School Division operating budget, including state and federal revenues, is \$48,623,400 which is a 5.0% increase over FY2016. To meet these expenditures, the budget proposes a 2.5 cent increase in the real estate tax rate.

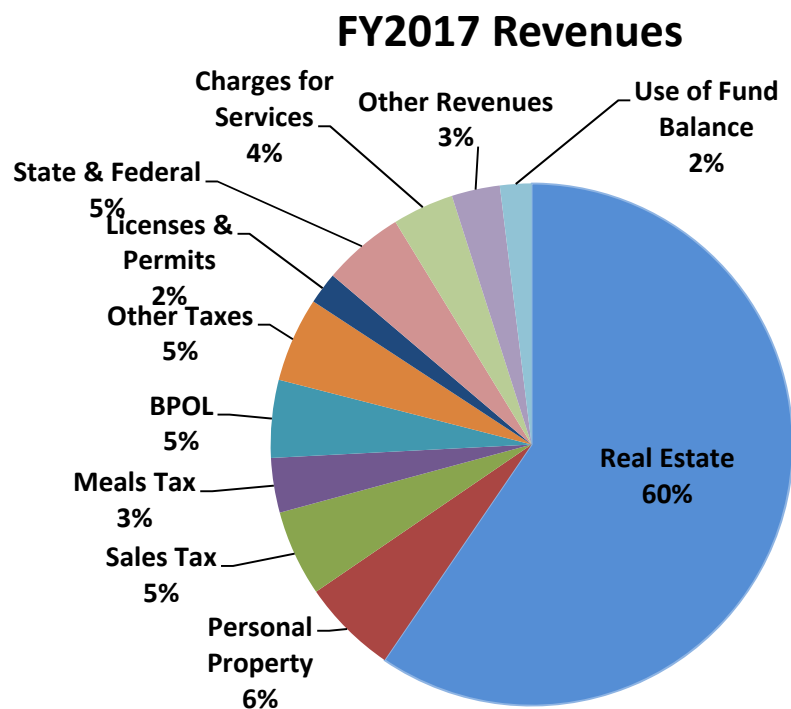
Public Transportation Expenditures are increasing due to the Washington Metropolitan Area Transit Authority (WMATA) relying on more direct financial support from the local governments of Virginia, DC and Maryland. In order to partially offset this increase in required expenditures,

the budget proposes an increase in the Personal Property Tax (also referred to as the “Car Tax”) by 16 cents, from the current rate of \$4.84 to \$5.00 per \$100 of assessed value.

Lastly, I am recommending that the City Council advertise a Real Estate Tax Rate of \$1.36. The budget, as presented, would require a RE Tax Rate of 1.34 and the additional two cents in the advertised rate are intended to provide the City Council with flexibility to fund capital reserves for the future major capital needs associated with the George Mason High School project.

FY2017 Revenue Projections

The Chart below provides a summary of the relative size of various sources of revenues for the City Budget.



The proposed budget includes the following tax rate increases:

- Real Estate Tax: Increase by 2.5 cents, from \$1.315 to \$1.33. This increase in tax rates is expected to generate \$965,000 to pay for public schools.
- Personal Property Tax: Increase by 16 cents, from \$4.84 to \$5.00 for transportation. This increase is expected to generate \$160,000 to pay for increased transportation costs for the regional MetroBus and MetroRail services operated by the Washington Metropolitan Area Transit Authority.
- Cigarette Tax: Increase by 10 cents per pack, from 75 cents to 85 cents, also for WMATA expenses.

With these rate increases, a breakdown of key revenue projections for FY2017 as compared to FY2016 is provided in the table below. The real estate revenue projection includes an increase in assessed value of 3.8% plus an increase in tax rates of 2.5 cents.

Comparative Summary of Estimated Revenues

	Adopted FY2016	Proposed FY2017	\$ Change	% Change
Real Estate Taxes	\$ 49,151,896	\$ 51,941,464	\$ 2,789,568	5.7%
Personal Property Taxes	4,948,000	5,175,000	227,000	4.6%
Sales Tax	4,150,000	4,649,000	499,000	12.0%
Meals Tax	2,913,000	2,948,000	35,000	1.2%
BPOL	3,775,000	4,200,000	425,000	11.3%
Other Taxes	4,340,000	4,569,000	229,000	5.3%
Licenses & Permits	1,484,412	1,730,100	245,688	16.6%
State & Federal	4,233,251	4,403,583	170,332	4.0%
Charges for Services	3,432,231	3,317,977	(114,254)	-3.3%
Other Revenues	2,066,360	2,610,986	544,626	26.4%
Use of Fund Balance	2,533,000	1,700,310	(832,690)	-32.9%
Total	\$ 83,027,150	\$ 87,245,420	\$ 4,218,270	5.1%

The total assessed value of the City is approximately \$3.9 billion as of January 1, 2016, an increase of \$141.6 million over January 1, 2015. The growth in assessed value reflects market appreciation and approximately \$121.7 million of new construction in the City. New construction accounts for 86% of the total growth in assessed value in the past 12 months.

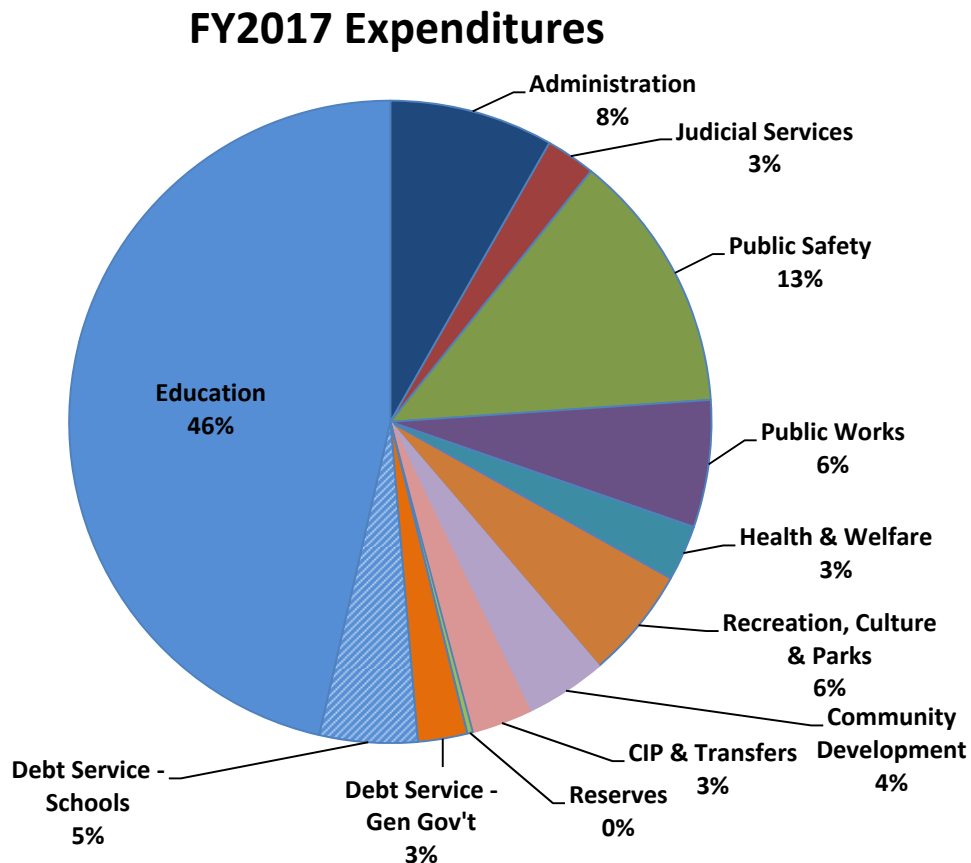
Of the \$121.7 million in new construction, approximately \$86.8 million is in the commercial sector (notably the 301 West Broad and Lincoln at Tinner Hill) and reflects the concerted efforts by the City to promote and grow the commercial tax base of the City. The ongoing additions and teardown/rebuilds of single family homes in the City amounted to \$34.9 million in new construction.

The following chart summarizes changes to assessed value by property class over the past two calendar years:

	<u>CY2015</u>	<u>CY2016</u>
Single Family:	up 3.7%	up 1.7%
Townhouses:	up 5.8%	down 0.2%
Condominiums:	up 5.7%	up 2.8%
Commercial:	down 1.2%	up 2.9%
Apartments:	<u>up 34.9%</u>	<u>up 26.9%</u>
Overall:	up 4.8%	up 3.8%

FY2017 Summary of Expenditures

The Chart below provides an overview of the distribution of General Fund expenditures across City operations.

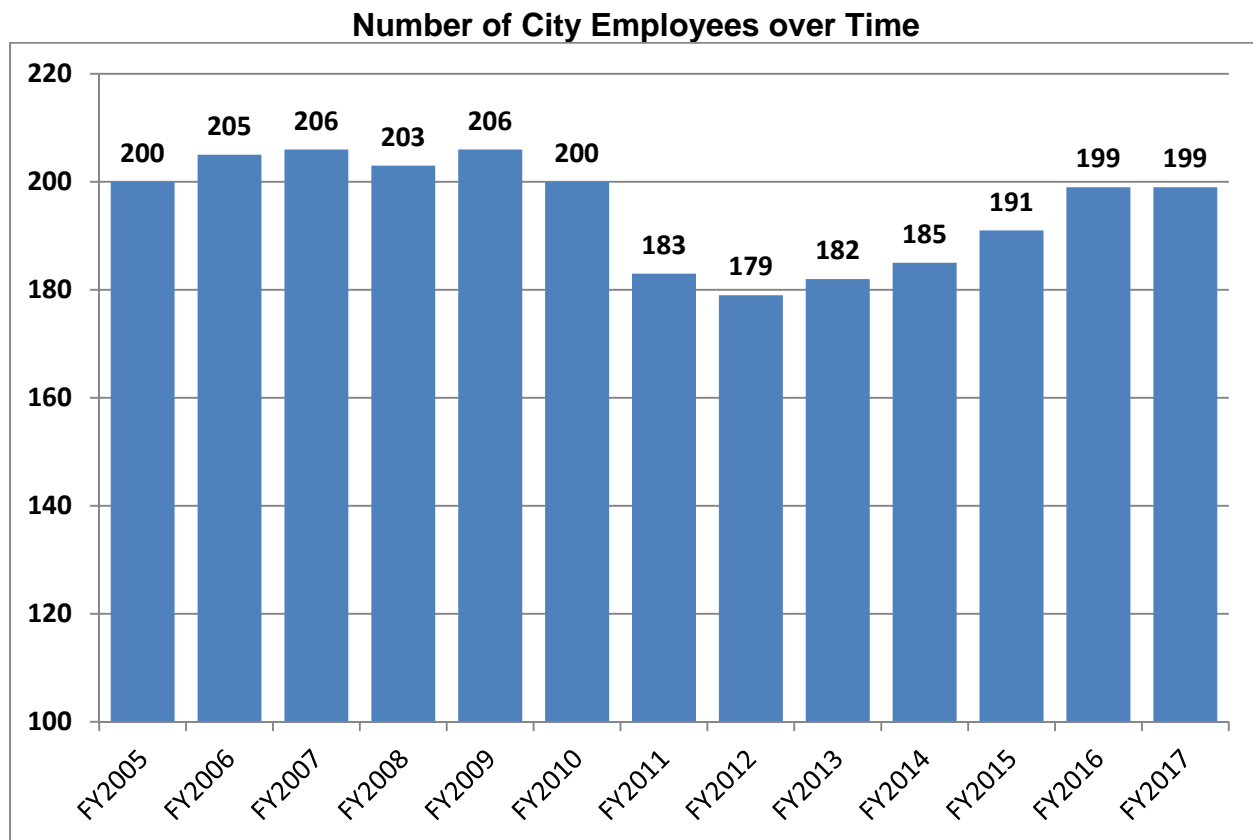


Staffing Levels

There are no new positions funded in this proposed budget. The FY2017 Budget funds 199 permanent positions in the General Fund, which is unchanged from the prior year, and remains below typical staffing levels for the period between 2000 and 2010.

The budget does sustain funding for several new positions that were included in the current FY2016 budget. These positions include

- *Transportation Planner*
- *Environmental Sustainability Coordinator*
- *Revenue Assistant Treasurer's Office*
- *Building Inspectors (three) plus Administrative Assistant for Building Permits*



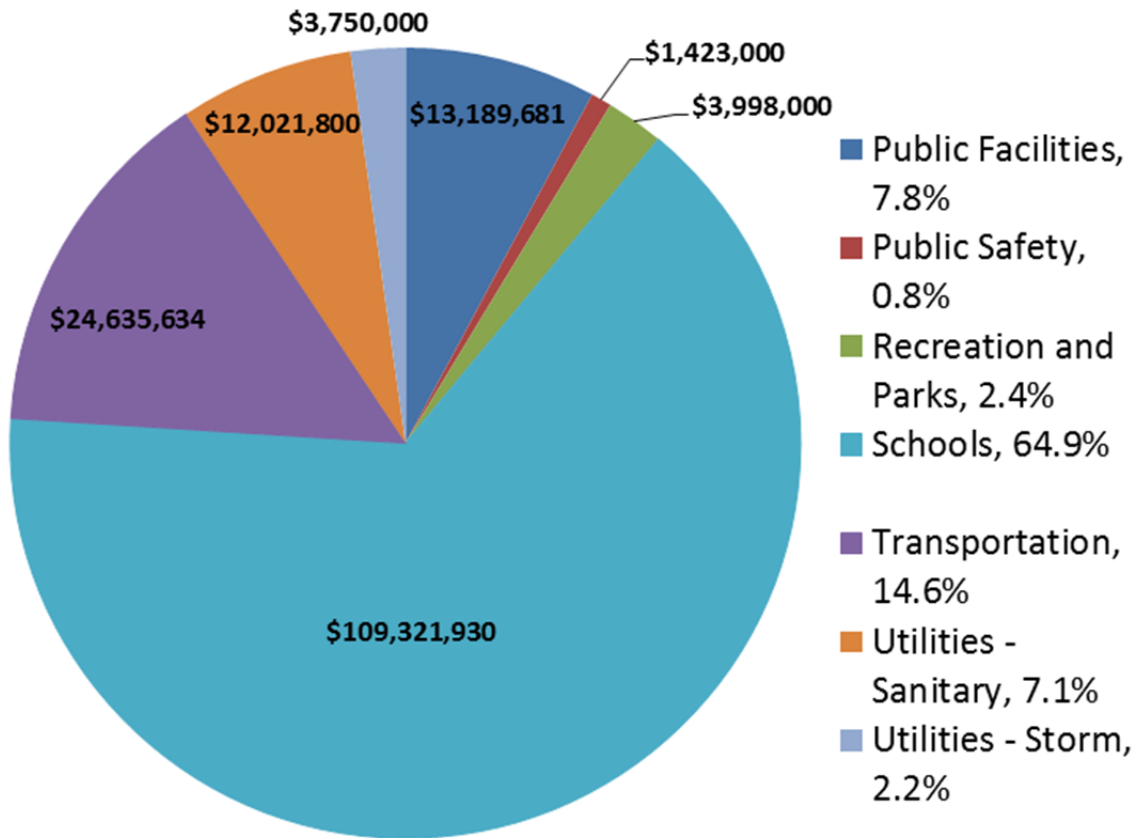
Note: General Fund supported only (does not include CIP and Enterprise Funded positions).

Employee Compensation: The FY2017 Budget provides a 3.0% merit increase in compensation for City employees and for uniformed police officers. This increase is necessary to maintain competitiveness in the region, and to reward employees for productive work in providing City services. The City Administration will continue to assess compensation rates in the region through the budget process and possibly recommend further adjustments as warranted.

CAPITAL IMPROVEMENTS PROGRAM (CIP)

The CIP contains significant projects in FY2017 and the subsequent four year planning period. Major funding is provided for City public facility improvements, downtown commercial area, public safety, transportation improvements on the primary corridors, stormwater mitigation and park improvements. The allocation by percentage is depicted below:

FY2017-2021 CIP by Program (All Funds)



PROJECT	FY2017	FY2017-FY2021
PUBLIC SAFETY	\$ 550,000	\$ 1,423,000
PUBLIC FACILITIES (includes general govt, library & schools)	7,500,000	125,541,610
PARKS & RECREATION	1,798,000	3,998,000
TOTAL GENERAL GOVERNMENT & SCHOOLS	\$ 111,991,860	\$ 127,932,611
TRANSPORTATION FUND- Special	\$ 7,010,026	\$ 24,635,634
SEWER FUND- Utility Enterprise	1,073,290	12,021,800
STORMWATER FUND- Utility Enterprise	-	3,750,000
TOTAL OTHER FUNDS	\$ 7,010,026	\$ 24,635,634

The projects are described in the Capital Improvements Program section of this Budget. Key projects are in the areas of:

School Facilities: GMHS and MEHMS (the large high and middle schools facility projects will be planned in concert with potential economic development on a portion of the school campus).

Library: Possible expansion in 2018.

Transportation: expanding pedestrian accessibility along South Washington and West Broad Streets commercial districts, maintaining bridges, traffic signals, and roadbed reconstruction.

WMATA: Provide for required transit funding and leverage 30% NVTA transportation funding for grant matches to fund the Downtown POA and W&OD Trail Great Street Improvements.

Parks: Open Space; Big Chimney's Park Master Plan, Cherry Hill Park Master Plan.

Stormwater: Continuing to implement Watershed Management Plan of 2-3 projects.

Sanitary Sewer: Improvements in the collection and treatment of wastewater.

Downtown Public Plaza: \$550,000 EDA grant to create a special gathering place to facilitate economic revitalization.

City Council has placed a strong focus on restoring the financial stability of the City as expressed in its adopted Vision statement on Sound Finances and the 2011 Financial Policies. The adopted CIP for FY2017-FY2021 is consistent with these policies. In a budget amendment to FY2014, City Council adopted to fund the Capital Reserve with proceeds from the sale of the Post Office land, the Mailboxes land, and surplus revenues.

SEWER AND STORM WATER FUNDS

Sanitary Sewer: Due to the continuing improvements to sanitary sewer treatment facilities as required by the Environmental Protection Agency, the Sewer Utility commodity rate will increase from \$9.73 to \$9.87 per 1,000 gallons, an increase of 1.4%. This increase is in keeping with the relatively low regional inflation rate, and will pay for Chesapeake Bay mandates for nitrogen and phosphate removal at the sewer treatment plants that serve the City as well as continued reinvestment in aging infrastructure. This budget funds the Sewer Fund Operating and Maintenance Reserves and the Repairs, Replacement, and Rehabilitation Reserve, while continuing to fully fund our obligations with regards to EPA regulations.

Storm Water: In FY2014, the City created a Stormwater Utility Fund to meet the rising costs of regulatory compliance, replacement of aging infrastructure, reducing flooding, and improving water quality. The storm water capital and operating costs were moved out of the General Fund to the new Stormwater Fund, and a fee based on impervious coverage was adopted to fund all storm water related activities. This allows for greater accountability to the rate payer, distributes the costs more equitably, and allows rate payers to reduce their costs if they take actions to reduce their impervious coverage (such as asphalt parking areas, and the like).

A rate increase of 2% is being proposed in FY2017 to cover increasing costs in debt service as a result of prior year borrowings to implement improvements in the City's storm water infrastructure such as the Great Falls retention system and the Cherry Street drainage system. The rates will increase to \$18.36/200 square feet of impervious surface from \$18.00/200 square feet of impervious surface last year. This is the first rate increase implemented since the establishment of the fee in FY2014.

	FY2015	FY2016
Sanitary Sewer Fund		
Expenditures	\$4,119,000	\$4,338,000
Rate	\$9.73/1000 gal.	\$9.87/1000 gal. (1.4% increase)
Storm Water Fund		
Expenditures	\$1,530,000	\$1,582,373
Rate	\$18.00 / 200 sq ft. of impervious surface	\$18.36 / 200 sq ft. of impervious surface

*These numbers include operating expenditures and exclude capital projects.

LOOKING AHEAD

The FY2017 Budget is influenced by continuing turbulence in the economic forecast for the Washington Metropolitan Region. The City uses a multi-year budget model to test assumptions and scenarios for future costs and revenue trends. By understanding the assumptions behind financial forecasts, we are able to think more clearly about our long term objectives for infrastructure improvement, effective operations, and workforce development, and options for achieving them.

Significant issues for the future include:

- City debt levels are within adopted policy limits and historical norms at the present time. However, projected capital spending for new facilities, as planned in the Capital Improvements Program, will present the City Council with difficult choices involving additional revenues from existing or new sources or spending reductions to provide room for debt service.
- The cost of debt service from the CIP as a whole over the coming five years could require an increase in the tax rate of over 21 cents depending on the assumptions used for interest and project timing. The City Council and School Board are exploring the potential for a public private partnership to lower the costs of the high school project, which is by far the largest project in the Capital Program. The City will continue to prioritize its capital projects and ensure that they are accompanied with a sustainable financial plan.

- The City's pension fund is currently fully funded on a market value basis, and 97% funded from an actuarial basis. If current actuarial assumptions hold, City retirement contributions can be expected to decline over the coming five years.
- Continued economic development in the City will provide additional resources for the City government to meet long term obligations. In FY2017, the two mixed use projects currently under construction are generating over \$1.1 million in new recurring real estate state tax revenue each year – the equivalent of 3 cents on the RE Tax Rate. New development carries costs as well, and while the net fiscal impact of mixed use development is expected to be strongly positive, those costs will factor into annual budgets along with future revenues.
- With the budget constraints in government expenditures, there are important infrastructure, service, and workforce investments that await future funding. In developing the FY2017 budget recommendations, the City and the School Board identified priority needs, should for future funding be available.

There are many reasons to be confident that the capital planning challenges faced by the City of Falls Church will be met in a financially sound manner. The City's highly educated citizens will shape and guide public decisions for reinvestment in school, library, public safety, and infrastructure to support the continued success of the City. Property values are supported by the City's strategic location, great schools, safe communities, and high quality of life. Developer interest in the City's key commercial areas continues, and presents the City with an opportunity to grow the tax base and attract new commercial and retail activity.

The City of Falls Church continues to enjoy strong credit ratings: Moody's Aa1; Standard & Poor's AAA; and Fitch AAA. The City Council has adopted financial policies on fund balance and debt levels that reflect a prudent approach to fiscal management while still allowing for a targeted use of borrowing and pay-as-you-go funding to meet community needs.

As the Council and community works through future budget decisions, it will continue to uphold the sound management policies adopted in 2001 and reaffirmed many times since: keeping debt within manageable levels; maintain adequate fund balances; set aside reserves for future capital needs; and avoid the use of one-time money for ongoing expenses. Sound financial management is at the core of community trust and sets the stage for accomplishing our most important community goals.

Respectfully,



F. Wyatt Shields
City Manager